

INTERSTATE
DEPARTMENT STORES, INC.
NEW YORK, N. Y.

ANNUAL REPORT
YEAR ENDING
JANUARY 31, 1938

DIRECTORS

| | |
|-----------------------|-----------------|
| ROBERT S. ADLER | RAY C. KRAMER |
| WALTER G. BAUMHOGGER | DAVID LEVENTHAL |
| REAGAN P. CONNALLY | WILL I LEVY |
| CHRISTIAN E. DAHLGREN | ALBERT PARKER |
| ROBERT R. GUTHRIE | HAROLD J. SZOLD |
| BENJAMIN VOLEN | |



OFFICERS

| | |
|---------------------------------------|--------------------|
| <i>President</i> | REAGAN P. CONNALLY |
| <i>Chairman of the Board</i> | RAY C. KRAMER |
| <i>Executive Vice-President</i> | BENJAMIN VOLEN |
| <i>Vice-President</i> | WILL I LEVY |
| <i>Treasurer and Secretary</i> | ALBERT PARKER |
| <i>Assistant Treasurer</i> | OSCAR C. WEITZBERG |
| <i>Assistant Secretary</i> | OSCAR C. WEITZBERG |
| <i>Assistant Secretary</i> | FREDERICK CORD |

MARCH 31ST, 1938.

TO THE STOCKHOLDERS OF

INTERSTATE DEPARTMENT STORES, INC.:

There are submitted herewith the Consolidated Financial Statements of the Company and its subsidiaries as of January 31, 1938 and for the fiscal year then ended.

The consolidated net profit for this period is \$368,584.94. This is equivalent to \$14.96 per share on the Preferred Stock, and \$.65 per share on the 301,378 shares of Common Stock (exclusive of treasury shares) outstanding on January 31, 1938, after dividend requirements on the Preferred Stock. In the preceding fiscal year the earnings of the Company were \$882,001.80, equivalent to \$3.22 per share on the 219,592 shares of Common Stock (exclusive of treasury shares) then outstanding, after current dividend requirements on the Preferred Stock. The reduction in earnings in the past fiscal year resulted from smaller sales volume, a reduction of .94% in gross profit caused by the drive to reduce inventories and by the drop in commodity prices and lastly by increased expense caused by increased payroll costs and taxes.

The number of shares of Common Stock outstanding increased from 219,592 to 301,378. This increase includes the 75,344 additional shares of Common Stock sold to stockholders upon the exercise of rights and to underwriters upon the increase in capital effected during 1937, and the 6,442 shares of the treasury Common Stock distributed to executives and members of the Executive Committee pursuant to their contracts of employment for the fiscal year ended January 31, 1937. The additional financing effected in 1937 realized for the Company, after all expenses, a net amount of \$1,189,933.49.

The accompanying consolidated balance sheet shows the ratio of current assets to current liabilities as of January 31, 1938 to be 4.78 to 1 compared with such ratio of 2.78 to 1 as of January 31, 1937. Net working capital increased during the year by \$1,069,255.58 from \$3,470,191.72 to \$4,539,447.30.

Cash as at January 31, 1938 was \$1,984,382.95, which was \$783,689.99 in excess of all current liabilities.

Inventories as of January 31, 1938, including merchandise in transit, were valued at \$2,974,009.73 as determined by the retail method of inventory, a decrease of \$984,603.97 from the \$3,958,613.70 at the close of the preceding fiscal year. Analysis of inventories on January 31, 1938 showed 92.44% was one year old or less compared with 94.33% on January 31, 1937. Adequate reserves have been provided for merchandise over one year old on the same basis as in prior years.

Customers' accounts receivable, after reserves, provided on the same basis as in the preceding year, were \$734,407.87 on January 31, 1938, which was an increase of \$2,829.93 over 1937.

During the year ended January 31, 1938 sales were \$26,947,881.73, including sales in leased departments, a decrease of \$1,060,642.75 or 3.8% below the sales of the preceding year. The decrease in sales was sharpest in the second half of the year and such decrease has continued thus far in the current fiscal year.

No stores were opened or closed during the year but alterations and improvements to equipment and plants were made in a number of stores and several were enlarged. The total expenditure in that connection amounted to \$213,510.92. The store operated in Davenport, Iowa by one of the subsidiaries of the Company had been occupied under a lease expiring September 30, 1948. In August, 1937 the land and building in which the Davenport unit is located were purchased through a subsidiary company for the sum of \$450,000, of which \$125,000 was paid in cash and the balance in promissory notes of the subsidiary secured by mortgages upon the property. The building is in excellent condition and constitutes a valuable acquisition on the part of the Company.

During the fiscal year ended January 31, 1938 the required \$7.00 dividend was paid to Preferred Stockholders and \$.50 per share was paid on the outstanding Common Stock.

On February 28th, 1938 Reagan P. Connally was elected President of the Company in the place of Henry Gessner, who had resigned. With the contemplated resignation of Mr. Gessner, the directors of the Company, over a period of a number of months, made a very thorough search for a capable executive trained and experienced in retail operations. Mr. Connally was chosen as the one most qualified for that position and he commenced his duties on February 28th, 1938. Mr. Connally has been employed for the term of two years and eleven months, ending January 31, 1941, at a salary of \$30,000 per annum and 3% of the net profits applicable to the Common Stock, after taxes and dividend requirements on the Preferred Stock, and 5% of such net profits over \$500,000, payable in cash.

The aggregate compensation of the members of the Executive Committee, who are not otherwise compensated by the Company, has been fixed for the fiscal year commencing February 1, 1938 at \$20,000 and 2.8% of the net profits applicable to the Common Stock, after taxes and dividend requirements on the Preferred Stock, payable in cash.

At the time of the election of Mr. Connally as President, the writer was elected Chairman of the Board of Directors.

By Order of the Board of Directors.

R. C. KRAMER,

Chairman of the Board.

The officers and directors of the Company deeply regret the loss of Abe Ackerman, one of the directors of the Company, who died on the 19th day of August, 1937. Though his term as a director was brief, he gave willingly of his time and valued services.

S. D. LEIDESDORF & CO.

CERTIFIED PUBLIC ACCOUNTANTS

125 PARK AVENUE
NEW YORK, N. Y.

MARCH 31, 1938.

TO THE BOARD OF DIRECTORS,

INTERSTATE DEPARTMENT STORES, INC.

We have made an examination of the consolidated balance sheet of Interstate Department Stores, Inc., and subsidiary companies as at January 31, 1938, and of the consolidated statements of surplus and profit and loss for the year ended January 31, 1938. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of surplus and profit and loss, together with the comments thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated financial position at January 31, 1938, and the consolidated results of their operations for the year then ended.

S. D. LEIDESDORF & CO.

INTERSTATE DEPARTMENTS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

| | ASSETS | | | |
|---|------------------------|--------------|------------------------|--------------|
| | As at January 31, 1938 | | As at January 31, 1937 | |
| CURRENT ASSETS: | | | | |
| Cash on hand and in banks | \$1,984,382.95 | | \$ 604,833.60 | |
| Accounts receivable—Customers: | | | | |
| Charge accounts | \$ 58,259.84 | | \$ 103,726.01 | |
| Layaway, Will Call and C. O. D. accounts ... | 290,871.29 | | 264,722.67 | |
| Deferred payment accounts secured by conditional sales contracts | 471,035.54 | | 440,445.31 | |
| | <u>\$ 820,166.67</u> | | <u>\$ 808,893.99</u> | |
| Less: Reserves | 85,758.80 | | 77,316.05 | |
| | <u>\$ 734,407.87</u> | | <u>\$ 731,577.94</u> | |
| Due from insurance companies, vendors and others | \$ 55,808.25 | | \$ 128,272.63 | |
| Less: Reserves | 8,468.54 | | 9,814.45 | |
| | <u>\$ 47,339.71</u> | 781,747.58 | <u>\$ 118,458.18</u> | 850,036.12 |
| Merchandise inventories, certified by the management as to quantities and marketable condition and as to valuation at the lower of cost or market | \$2,832,822.77 | | \$3,742,045.72 | |
| Merchandise in transit | 141,186.96 | 2,974,009.73 | 216,567.98 | 3,958,613.70 |
| Total Current Assets | <u>\$5,740,140.26</u> | | <u>\$5,413,483.42</u> | |
| OTHER ASSETS: | | | | |
| Deposits in closed banks, less reserve | \$ 3,935.55 | | \$ 4,503.63 | |
| Advances to employees | 2,810.52 | | 2,021.95 | |
| Miscellaneous other assets, including rent deposits, investments, due from landlords, etc., less reserve | 61,103.88 | 67,849.95 | 59,585.90 | 66,111.48 |
| FIXED ASSETS—AT COST: | | | | |
| Land and buildings | \$1,200,000.00 | | \$ 752,000.00 | |
| Less: Reserve for depreciation | 73,861.25 | | 56,565.63 | |
| | <u>\$1,126,138.75</u> | | <u>\$ 695,434.37</u> | |
| Alterations and improvements to leased premises | \$ 602,823.64 | | \$ 587,662.92 | |
| Less: Reserve for depreciation | 256,852.74 | | 287,503.99 | |
| | <u>\$ 345,970.90</u> | | <u>\$ 300,158.93</u> | |
| Furniture and fixtures | \$1,387,198.52 | | \$1,375,309.06 | |
| Less: Reserve for depreciation | 789,488.41 | | 760,779.41 | |
| | <u>\$ 597,710.11</u> | | <u>\$ 614,529.65</u> | |
| Delivery equipment | \$ 10,784.85 | | \$ 9,432.50 | |
| Less: Reserve for depreciation | 4,286.97 | | 2,736.57 | |
| | <u>\$ 6,497.88</u> | 2,076,317.64 | <u>\$ 6,695.93</u> | 1,616,818.88 |
| LEASEHOLDS | \$ 247,897.12 | | \$ 247,897.12 | |
| Less: Reserve for amortization | 111,676.10 | 136,221.02 | 100,293.98 | 147,603.14 |
| DEFERRED CHARGES: | | | | |
| Prepaid expenses, unexpired insurance, etc. | \$ 163,231.24 | | \$ 173,420.69 | |
| Supplies | 63,848.31 | 227,079.55 | 63,199.34 | 236,620.03 |
| | <u>\$8,247,608.42</u> | | <u>\$7,480,636.95</u> | |

The notes to accounts are an integral part of this statement.

MENT STORES, INC.

RY COMPANIES

HEET AS AT JANUARY 31, 1938

LIABILITIES

| | As at January 31, 1938 | | As at January 31, 1937 | |
|---|------------------------|-----------------------|------------------------|-----------------------|
| CURRENT LIABILITIES: | | | | |
| Accounts payable—trade..... | | \$ 586,367.35 | | \$1,070,310.01 |
| Accounts payable for merchandise in transit.... | | 141,186.96 | | 216,567.98 |
| Accrued salaries and expenses..... | | 135,364.76 | | 146,786.34 |
| Accrued Federal, State and other taxes..... | | 238,736.00 | | 405,389.11 |
| Sundry creditors and accruals | | 54,595.69 | | 53,513.26 |
| Notes payable on real estate and accrued interest | | | | 30,100.00 |
| Current installment on mortgages payable and accrued interest thereon | | 38,968.81 | | 20,625.00 |
| Accrued additional compensation — payable in cash — Note A..... | | 5,473.39 | | |
| Total Current Liabilities..... | | <u>\$1,200,692.96</u> | | <u>\$1,943,291.70</u> |
| First Mortgage 5% Gold Bonds, Series A, due annually to March 1, 1949 | \$ 255,000.00 | | \$ 270,000.00 | |
| Less: Current installment included above | 15,000.00 | 240,000.00 | 15,000.00 | 255,000.00 |
| First Mortgage payable—payable in monthly in- stallments to 1947 | \$ 221,694.05 | | | |
| Less: Current installments included above | 8,191.34 | 213,502.71 | | |
| Second Mortgage payable—payable semi-annually to 1947 | \$ 100,000.00 | | | |
| Less: Current installments included above | 7,500.00 | 92,500.00 | | |
| Total Liabilities | | <u>\$1,746,695.67</u> | | <u>\$2,198,291.70</u> |
| Accrued additional compensation—payable in Com- mon Stock—Note A | | 2,340.00 | | 32,210.00 |
| Reserves for replacement of fixtures and for equali- zation of rent | | 25,974.60 | | 31,087.32 |
| Minority interest in Subsidiary Company..... | | 5,947.03 | | 6,292.64 |
| CAPITAL STOCK: | | | | |
| Preferred Stock 7% Cumulative, par value \$100.00 per share (redeemable at \$110.00 per share, plus accrued dividends): | | | | |
| | Shares | | Shares | |
| Authorized and issued | 24,800 | \$2,480,000.00 | 24,800 | \$2,480,000.00 |
| Less: Held in treasury for redemption .. | 160 | 16,000.00 | | |
| Outstanding | <u>24,640</u> | <u>\$2,464,000.00</u> | <u>24,800</u> | <u>\$2,480,000.00</u> |
| Common Stock, without par value: | Shares | | Shares | |
| Authorized | 320,000 | | 240,000 | |
| Issued | 308,946 | \$1,580,251.53 | 233,602 | \$1,203,531.53 |
| Less: Reacquired—Note B | 7,568 | 37,840.00 | 14,010 | 70,050.00 |
| Outstanding | <u>301,378</u> | <u>\$1,542,411.53</u> | <u>219,592</u> | <u>\$1,133,481.53</u> |
| SURPLUS: | | | | |
| Earned Surplus—per Statement No. 2..... | \$ 445,497.25 | | \$ 368,641.31 | |
| Appropriated Surplus—per Statement No. 2.... | 37,840.00 | | 70,050.00 | |
| Capital Surplus—per Statement No. 2 | 1,976,902.34 | \$2,460,239.59 | 1,160,582.45 | \$1,599,273.76 |
| | | <u>\$8,247,608.42</u> | | <u>\$7,480,636.95</u> |

statement and must be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SURPLUS AS AT JANUARY 31, 1938

| | January 31, 1938 | January 31, 1937 |
|--|-----------------------|-----------------------|
| EARNED SURPLUS: | | |
| Balance, January 31, 1937 and 1936 | \$ 368,641.31 | \$ 259,614.56 |
| Transfer to earned surplus of appropriated surplus applicable to 6,442 shares January 31, 1938 and 2,830 shares January 31, 1937 of Common Stock, without par value, distributed during the year. | 32,210.00 | 14,150.00 |
| Net adjustment of expenses of a subsidiary company dissolved in prior year | | 1,878.52 |
| Provision for prior years' Federal income taxes | | 11,525.57* |
| Net profit for the year ended January 31, 1938 and 1937 | 368,584.94 | 882,001.80 |
| Dividends paid on Preferred Stock—four quarterly dividends | 173,250.00* | 173,600.00* |
| Dividends paid on Common Stock | 150,689.00* | 603,878.00* |
| Balance, January 31, 1938 and 1937 per Statement No. 1 | <u>\$ 445,497.25</u> | <u>\$ 368,641.31</u> |
| APPROPRIATED SURPLUS: | | |
| Balance, January 31, 1937 and 1936 | \$ 70,050.00 | \$ 84,200.00 |
| Transfer to earned surplus of appropriated surplus applicable to 6,442 shares January 31, 1938 and 2,830 shares January 31, 1937 of Common Stock, without par value, distributed during the year. | 32,210.00* | 14,150.00* |
| Balance, January 31, 1938 and 1937 per Statement No. 1 | <u>\$ 37,840.00</u> | <u>\$ 70,050.00</u> |
| CAPITAL SURPLUS: | | |
| Balance, January 31, 1937 and 1936 | \$1,160,582.45 | \$1,196,103.98 |
| To adjust the capital Common Stock account to reflect the proceeds from the sale in 1929 of 1,160 shares of Common Stock in accordance with resolutions of the Board of Directors adopted at the time of the issuance of such shares whereby all of such proceeds were declared to be capital. The excess of such proceeds over \$5.00 per share was at that time credited on the books to capital surplus | | 35,521.53* |
| Proceeds from the sale of 75,344 shares of Common Stock, without par value, at \$17.00 per share aggregating \$1,280,848.00, after deducting the amount of \$376,720.00, equivalent to \$5.00 per share, allocated to Common Capital Stock Account and the amount of \$90,914.51 expended for fees, underwriting commissions and other expenses in connection with such sale | 813,213.49 | |
| Discount on 160 shares of 7% Preferred Stock purchased for redemption | 3,106.40 | |
| Balance, January 31, 1938 and 1937 per Statement No. 1 | <u>\$1,976,902.34</u> | <u>\$1,160,582.45</u> |

*Italics * Denote red figures.*

The notes to accounts are an integral part of this Statement and must be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED JANUARY 31, 1938

| | For the Year Ended January 31, 1938 | For the Year Ended January 31, 1937 |
|---|--|--|
| NET SALES: | | |
| Owned Departments | \$23,042,943.85 | \$23,999,982.75 |
| Leased Departments | 3,904,937.88 | 4,008,541.73 |
| | \$26,947,881.73 | \$28,008,524.48 |
| COST OF GOODS SOLD, SELLING, OPERATING AND ADMINISTRATIVE EXPENSES, exclusive of depreciation and amortization | 26,377,952.56 | 26,852,218.75 |
| | \$ 569,929.17 | \$ 1,156,305.73 |
| LESS: Depreciation on buildings, alterations and improvements, fixtures, equipment, etc..... | \$ 198,442.88 | \$ 188,442.80 |
| Amortization—leaseholds | 11,382.12 | 11,382.17 |
| | 209,825.00 | 199,824.97 |
| | \$ 360,104.17 | \$ 956,480.76 |
| OTHER INCOME: | | |
| Interest and other non-trading income..... | 103,572.87 | 92,969.31 |
| | \$ 463,677.04 | \$ 1,049,450.07 |
| Proportion of profit or loss of a subsidiary company applicable to its minority interest | 345.61* | 371.71 |
| NET PROFIT BEFORE PROVISION FOR FEDERAL INCOME AND EXCESS PROFITS TAXES AND SURTAX ON UNDISTRIBUTED PROFITS | \$ 464,022.65 | \$ 1,049,078.36 |
| PROVISION FOR FEDERAL INCOME AND EXCESS PROFITS TAXES | 94,387.29 | 149,957.88 |
| NET PROFIT BEFORE PROVISION FOR SURTAX ON UNDISTRIBUTED PROFITS | \$ 369,635.36 | \$ 899,120.48 |
| PROVISION FOR SURTAX ON UNDISTRIBUTED PROFITS | 1,050.42 | 17,118.68 |
| NET PROFIT—Note A—Statement No. 2 | \$ 368,584.94 | \$ 882,001.80 |

*Italics * Denote red figures.*

The notes to accounts are an integral part of this Statement and must be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

NOTES TO ACCOUNTS

AS AT JANUARY 31, 1938

NOTE A. Shares of Common Stock reacquired by purchase during the period from January 1, 1929 to January 31, 1933 (at an average cost of \$20.62 per share) are considered treasury stock. As at January 31, 1933 the excess of the cost of such treasury stock over \$5.00 per share was charged to earned surplus. In accordance with the terms of agreements with certain executive officers for the fiscal year ended January 31, 1938, an aggregate of 468 shares of such treasury Common Stock, carried on the books of the Company at the aforesaid amount of \$5.00 per share, was allocated under such agreements to the payment of additional compensation as provided in said agreements. The 468 shares of treasury Common Stock so allocated were charged to Consolidated Profit and Loss for the fiscal year ended January 31, 1938 at such amount of \$5.00 per share. In addition Consolidated Profit and Loss was charged with \$5,473.39, representing additional compensation payable in cash in accordance with arrangements with certain members of the Executive Committee.

(For the preceding fiscal year ended January 31, 1937, 6,442 shares of treasury Common Stock, distributed as additional compensation in accordance with the terms of agreements and arrangements in effect during that period, were charged to Consolidated Profit and Loss for that year at \$5.00 per share.)

NOTE B. The 7,568 shares of treasury Common Stock reacquired are reserved under compensation agreements and arrangements which terminated January 31, 1938; of this amount 468 shares are allocated as accrued additional compensation as at January 31, 1938 as stated in Note A above.

GENERAL NOTES. On or before the 31st day of December, 1938 the Company is obligated to acquire by redemption or purchase 915 shares of its Preferred Stock for retirement and at least 3% (975 shares) annually thereafter of the largest amount in par value of such Preferred Stock which shall ever have been issued and outstanding.

The statements are subject to the final determination of Federal and state income and state franchise taxes.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.

